

Improve the evaluation of financial investments based on international financial reporting standards

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ABSTRACT

The article describes how to compile a statement of financial results based on international financial reporting standards. It also analyzes national and international experience in the preparation of financial statements.

Keywords: Financial statement, international financial reporting standards, income statement, statement of total income, income, expenses.

1. INTRODUCTION

Improving the efficiency of corporate governance in joint-stock companies, taking into account the international requirements for full implementation of the principles of corporate governance in the Republic, as well as ensuring their wide participation in investment processes and structural changes in the economy. In this regard, the adoption of the Decree of the First President of the Republic of Uzbekistan I.Karimov dated April 24, 2015 "On Measures for Introduction of Modern Corporate Governance Methods in Joint Stock Companies" is important for the development of joint stock companies. In accordance with paragraph 8 of this Decree, "Increasing the transparency of joint-stock companies' activity, publication of auditing and financial reporting information in accordance with international standards" [1]. This, in turn, requires that joint stock companies publish financial statements based on international standards and conduct audits based on international auditing standards.

Financial reporting based on international standards is essential for effective management of an organization. The main goal of the transition to international standards is to enter the international market and attract investments. International standards also contribute to the qualitative development of the country's economy. In this process, favorable investment climate, transparency of companies activity, accountability of management to shareholders, introduction of modern methods of corporate governance will contribute to the development of joint stock companies.

2. ANALYSIS AND RESULTS

The first International Financial Reporting Standard 25, which discusses financial investment appraisals, is called Financial Investments (this Standard was repealed in 2001). It was adopted in 1985 by the International Accounting Standards Committee (IASB). In this standard, the principal accounting for investments is that securities, loans (other than investments in subsidiaries and affiliates are dealt with in other standards) are transferred to real estate and other assets, not to be used in the production activities of enterprises. investments - defined as "investment property". Thus, the IFRS has considered all types of investments as assets of a similar type. Therefore, the selection of the classification in accounting for this asset was common. The investor is divided into long-term and short-term investments depending on the purpose of the enterprise.

IFRS 25 does not provide a clear criteria for allocation of short-term investments (other than investor purpose). In practice, this allocation of financial investments is typical of the general notions of asset accounting. It was to divide them into two components: current and long-term. In addition, the method of assessing financial investments in IFRS 25 is based on the concepts of market value and cost. Short-term investments, as envisaged, have market value and are estimated at the smallest of two values, ie market value and cost. Consequently, the precautionary principle was followed. It was intended to be the long-term or revalued value of long-term investments, or the market value of the active market and the lowest of the cost.

The main disadvantages of the assessment and classification of financial investments under IFRS 25 are:

- insufficient data on allocation of short and long term investments for the user;
- lack of clear criteria for the allocation of short and long term investments, in which case the objectives of the enterprise may not be complete;
- there was an abundance of alternative approaches to valuing investments.

The next step in the presentation of financial investment information in the reports was the adoption of IAS 32 Financial Instruments: Disclosure and Presentation. This standard covers financial investments, including disclosure of financial investment classification and accounting policies, as well as issues related to those investments. However, IAS 32 does not deal with the assessment or recognition of financial investments. This section continued to apply IFRS 25. Because of the aforementioned shortcomings, it would preclude companies from providing accurate information about their investments in financial assets, and that their report users' ability to make informed economic decisions based on the data presented. As a result, both IFRSs 25 and 32, which set out the procedures for presenting and accounting for financial investments, differed significantly in terms of accepted terms and in the extent of detail consideration of the scope and requirements of the issue. That is, IFRS 25 considers an investment of an enterprise, and IFRS 32 applies to both assets, liabilities and financial investments.

In 1995, an agreement was reached between the IFRS Committee and the Securities International Commission on further development of international accounting standards. This is because the committee develops accounting standards, while the International Commission of Inquiry analyzes them and applies them to the capital market or refuses to do so. The development of standards for the recognition and recognition of financial investments, including financial investments, is one of the main projects of the IFRS Committee, and its intermediate phase ended in 1998 with the adoption of IAS 39 Financial Investments: Recognition and Evaluation.

The main innovations in IFRS 39 are:

- it extends to financial assets such as IFRS 32 (securities, loans, financial assets that are assets) and financial liabilities (receivables, loans and borrowings, derivatives that meet the criteria of liability);
 - Most financial investments are measured at fair value;
- Dividing financial investments into categories is almost the same as categorizing GAAP securities. The only difference is that additional loans have been added to other businesses;
- IFRS 39 is not the last of the international agreements on recognition and evaluation of financial investments. The circumstances surrounding the valuation of financial liabilities at fair value, as well as derivative investments, were not coordinated with the committee. However, it is safe to say that a narrow group of financial investments, in particular, has reached international agreement on how to account for financial investments.

IFRS 39 came into force on 1 January 2001. The reason for such a prolongation is the length of time between the adoption and enactment of the standard, due to the complexity of the issues under consideration and the difficulties associated with its application. In this regard, the Joint Working Group on Financial Investment is developing a document on the practical implementation of certain aspects of IAS 39. One of the biggest challenges is switching to valuing a significant portion of your financial investment.

IFRS 39 deals with the concept of financial investments. Investment is an asset held by an enterprise for the purpose of redistribution of property of another enterprise (interest, royalties, dividends and rent), capital gain or other type of profit. As we can see from the definition, the term "investment" is very broad and covers both the financial market, the real estate market and so on. It has no clear market-based boundaries. However, when we use the term "investment" to the financial market boundary, we can get a more narrow and clear category of "financial investments". This approach includes financial investments other than cash, ie securities, loans to other businesses, receivables from other entities that have been abandoned as a result of waiving the right of claim, and various investments in futures, options, warrants, and so on. IFRS 39 provides the following classification of financial investments for the purposes of their measurement in the balance sheet:

- trade and financial investments;
- financial investments held to maturity;
- loans to other enterprises;

- available financial investments for sale.

Trade and financial investments are the following investments in financial assets:

- for the purpose of short-term fluctuations in the market price of these assets or profit in the form of dealer level;
- The investment portfolio of the enterprise intended for short-term spikes in the market.

It does not matter how these assets were obtained. Also, the debt repayment period does not matter the enterprise can trade both short-term and long-term securities, earning margins or price fluctuations. Generally, trading securities are referred to as "market securities", that is, securities that are actively traded in the market. The availability of quotation by the trading organizer on the stock market or quotation of the dealer for the purchase of these securities can serve as a criterion for the category of securities.

Trade and financial investments include securities - stocks and debt securities - bonds. Liquid accounts receivable may also be included.

Financial investments held to maturity are:

- has a designated or determinable income and a fixed repayment period;
- no loans to other companies;
- financial investments that are not intended to be sold until the maturity of the entity.

Thus, financial investments held to maturity include debt, financial assets, bonds, receivables and bills received as a result of denial of the right to claim.

Loans to other companies:

- occurred at the enterprise when the goods or services were transferred directly to the debtor;
- financial investments not received for the purpose of their subsequent sale.

Thus, loans to other businesses include all accounts receivable arising from the relationship between the creditor and the borrower, including investment in debt (loan) transactions and deposits in banks.

Loans (accounts receivable) are not included in the category of loans to other enterprises in the following cases:

- the enterprise buys the debt of another enterprise on the market;
- an enterprise acquires the right to claim another enterprise's debt by waiving it in favor of another person;

In the process of securitization, an enterprise receives a share from the other entity, usually its total debt. Securitization means issuance of securities in the amount equal to the amount of debt in order to provide a liquid form for corporate debt. In essence, it is one of the forms of corporate debt restructuring. Often large banks are involved in securitization as investors. All the above cases do not apply to loans issued to other entities, as a result of which a debtor is not a direct debtor to a debtor. Therefore, this debt is included in the category of financial investments held for sale or available for sale, depending on the creditor's intention, loan quality and portfolio composition.

Financial investments for sale are financial investments that are not in any of the aforementioned categories. It is an intermediate category that includes financial investments with uncertain market or uncertain management positions with respect to these investments.

In order to reflect the above categories of financial investments in the financial account, the following accounts will be opened:

- trade;
- held until its suspension;
- available for sale;
- loans.

When financial statements reflect financial investments, they are disclosed in the following categories: In addition, this principle can be applied to long-term and short-term allocation of financial investments, if an enterprise allocates assets and liabilities in the long-term and short-term. However, as opposed to the classification of financial investments in IFRS 25, the allocation of long-term and short-term financial investments in IFRS 39 is not basic, but complementary. Therefore, under IFRS 39, the principles for assessing financial investments do not depend on the timing of investors.

Speaking of improving investment accounting, we also need to improve their valuation procedures. It is well known that the market value of the ordinary shares of any company (that is, the value of the company) should be equal to the present value of the dividends the company can pay to its investors in the



future. In practice, however, investors often determine the market value of a company's common stock at the present value of cash flows from its future operations.

Please note that accounting data that accurately represent the results of a company's financial and economic performance are not directly used when estimating a company's value through dividends or net cash flows. However, dividend or net cash flow ratios do not provide sufficient information about the financial performance of the company, expected profitability, available assets and the effectiveness of their use. Western scientists therefore propose to determine the market value of the company based on its net assets and net profit. This method is called in the financial literature as a way of maximizing the market value of a company.

The excess profit margin calculation method is based on the logic that the value of a company depends on the residual value of the company's assets and how much the expected profit from the company's operations is greater or less than the investors' expectations. When using the excess pricing method, all of the current and future assets of the company are taken into account and how effectively these assets are used in the business process.

It is advisable to use the aforementioned methods in improving financial accounting. At the same time, international accounting standards should be used to improve the accounting of investments. However, when applying international accounting standards, it is necessary to take into account the national peculiarities, as well as the national way of doing business. In conclusion, the improvement of the accounting of investments should cover all its aspects - their valuation, the accounting of investment income, and the taxation of the financial result of these activities.

3. CONCLUSION/RECOMMENDATIONS

The basis for the conclusion, making recommendations and making recommendations on the study of financial investments evaluation and audit in enterprises working with financial investments in the Republic of Uzbekistan:

1. When valuation method is used in the evaluation of financial investments, the investor puts his or her money in other enterprise at initial cost. Its basic principle is that the value of investments does not change regardless of the financial position of subsidiaries, and dividends from them are accounted for as a parent.

It is recommended to use this method when:

- the subsidiary was subsequently acquired for sale in the near future and its control is temporary;
- the subsidiary operates within a set long-term environment that significantly reduces its ability to invest in its parent company. For example, there may be restrictions on the payment of dividends made by an organization that lends to a subsidiary.
- 2. It is recommended that the parent company use the equity method in the evaluation of financial investments in the case of significant influence and control over the subsidiary, including:
 - the current value of investments varies depending on the results of the business of the subsidiary: when it receives a profit, the value of the investment increases and the loss is reduced:
 - the profit of the parent company is reflected in proportion to the share of the profits: the greater its share in the subsidiary, the higher the investment value on the balance sheet of the parent company;
 - dividends received are not treated as income but are denominated in the form of an investment value reduction.
- 3. Audit of their accounts is becoming increasingly important for organizations currently engaged in financial investments. The purpose of the audit of financial investments, the methodology of accounting and taxation of their results is the compliance of the normative acts of the Republic of Uzbekistan with the current regulations, as well as the formation of a complete opinion on the reliability of the financial reporting data.

To achieve this goal, it is advisable for the auditor to examine the financial statements of the client for a certain period of time, and then proceed with the following steps to draw conclusions regarding the accuracy, reliability, and completeness of the financial investments.

- Audit planning;
- Audit of business transactions;
- Issuing an audit report;

Different errors may occur during the audit based on the established program. Investigation of possible errors and the current legislation and financial impact of the client is in the process of verification

In the event of an error, the auditor shall record it in his / her working documentation. At present we do not have a standard form of working documents on financial investments audit. With this in mind, we found it appropriate to recommend working papers and internal reporting forms. The above information is available to all audit organizations in Uzbekistan.

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